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The Impact of Counterfeit Software

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This past summer, the FBI raided a building in Los Angeles and arrested four men thought to be associated with Asian organized crime. The raid netted \$11.8 million worth of counterfeit Microsoft software. Last year, Irish police uncovered a cache of counterfeit software CDs with a street value of £100,000. During the raid, the IRA showed up, held police at gunpoint, and retrieved its stash. Authorities in Ireland are certain that the profits from software counterfeiting are used to fund terrorism.

Many people assume software piracy is a victim-less crime. But the economic and societal implications of this crime run deep. For one thing, the terrorist attacks of September 11 show that money in the wrong hands can be spent on unfathomable evil. I don't know if investigations will find a link from recent terrorist attacks to counterfeiting, but according to the International Anti-Counterfeiting Coalition, the Islamic extremists linked to the 1993 bombing of the World Trade Center in New York raised cash by selling counterfeit products.



I recently saw Microsoft Office XP offered at an auction site for about \$200. (The retail price is \$479.) The software was billed as an OEM version and came with an old hard drive to comply with the rules of Microsoft and the auction site for selling "OEM product." But according to Microsoft, there's a 90 percent chance the discs are counterfeit. And increasingly, that means that they've been burned in some covert plant run by organized crime.

The scope of counterfeiting is so extensive that the U.S. Customs Service launched the Customs Cyber-Smuggling Center (C3) in Fairfax, Virginia, last year in part to address it. The FBI and Department of Justice have ramped up enforcement. And Microsoft brought in Richard LaMagna as senior manager of worldwide investigations. LaMagna was previously deputy chief of intelligence for the Drug Enforcement Administration and at one time oversaw organized crime and drug enforcement units for the FBI.

It seems strange for a software company to call on someone skilled in worldwide drug enforcement, but LaMagna tells me he sees similarities between the traffics in drugs and counterfeit software. Both often involve clandestine manufacturing operations run by organized crime. They both operate on a worldwide basis. And there is often a perception that neither crime is harmful to society.

To illustrate, let's assume I bought that \$200 copy of Office XP. Chances are good that something is wrong with the disk: It has a

Virus, is an early revision, or doesn't work. Criminal gangs aren't known for quality control. So I call Microsoft and learn I've got a counterfeit. A publisher won't replace or support a product it didn't make or sell. That would be underwriting a criminal enterprise that costs it billions. So I'm out \$200.

Meanwhile that \$200 - mostly profit - is in the hands of a middleman who may have bought his goods from the Chinese triads, the Russian mob, the Italian Mafia, or even the IRA. These are criminals whose other businesses include drug trafficking, prostitution, importing illegal immigrants, trading in weapons, and all manner of dangerous stuff.

The penalties - and risks - associated with those crimes are much more severe than the maximum of five years in prison and the fines for counterfeiting software. And the profits are competitive. The lure is irresistible.

Okay, so my \$200 went to the bad guys. It didn't go to a company that pays taxes to governments in the U.S. Or salaries to high-tech workers like you and me. Nothing went to the ancillary industries - shipping, packaging, and so on - that surround legitimate enterprise. In fact, since a lot of the profits from counterfeiting move offshore, some of my \$200 probably went to bolster an evil and illicit cartel that doesn't even buy a cup of coffee here.

In the past two years, more than \$2 billion worth of counterfeit Microsoft products have been seized in raids. That doesn't include movies, games, and software from other companies. This is no longer a problem just for other countries. This stuff is being sold right here, to bargain hunters like you and me.

If there is even the most remote chance that a penny of my money will go to the terrorists currently waging war against us, I won't take that chance. This is something I *can* do: Buy my software from a known source.
